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The Influence Of Leverage, Tax Planning, And Good Corporate Governance On Earning Management

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Abstract. Profit is a crucial indicator in assessing the financial performance of a company. One method that can be utilized to manipulate a company's proft is through earning management. The objective of this study is to investigate and analyze how leverage, tax planning, and effective corporate governance impact earnings management. the study's sample is chosen through purposive sampling, with a specific focus on state-owned enterprises (BUMN) . Employing a quantitive approach, regression analysis is utilized as the analytical method, and a total of 74 sample are included in this study. Statistical data analysis to test hypotheses is conducted using SPSS 24 software. The research results reveal that only one variable accepted, namely institutional ownership, which has a negative influence on earnings management. On the other hand, the hypotheses regarding leverage, tax planning, managerial ownership, and audit committee are rejected.

Keywords: Leverage, Tax Planning, Good Corporate Governance, Earning Management, Agency Theory

INTRODUCTION

The primary purpose of financial reports is to present a well-organized and detailed overview of a company's financial status, revealing its condition and performance throughout a specific timeframe. (Setyawan et al., 2021). One approach to evaluating the performance of a company involves examining the profits reported in its financial statements. Profit has an important role in financial reports, namely to attract the interest of stakeholders. For internal parties, profit serves as a means to depict the company's performance and management effectiveness. For investors, profit is utilized as a premise for making investment choices. Meanwhile, the government utilized profits as a crucial factor in determining the tax amount that companies are required to contribute to the government. When a company faces financial challenges, profit information can be used as a way for managers to commit fraud (Wardoyo et al., 2022).

Several cases in financial reporting have emerged due to earnings management practices. In 2018, PT. Garuda carried out earnings management by recognizing receivables as income which resulted in a significant increase in net profit of US$809.85 or around Rp. 11.3 billion. In contrast to its financial report in 2017, when PT Garuda recorded a loss of US$

216.58 million, the performance of PT Garuda in the third quarter of 2018 could be considered quite unexpected as the company still incurred a loss of US$ 114.08 million (cnnindonesia.com, 2019). Another state-owned company involved in the earnings management case is PT. Waskita Karya Tbk (WSKT) and PT. Wijaya Karya Tbk (WIKA). Reporting from Majalah.tempo.co (2023), they manipulated financial records by concealing several vendor invoices since 2016. This reduction in liabilities led to a decrease in debt burden, creating a false impression of the company's financial health despite facing financial difficulties. In 2020, WIKA reported a net profit of IDR 322 billion, which declined to IDR 214 billion in the following year and further dropped to IDR 12.5 billion in 2022. Conversely, WSKT saw a decrease in net losses from IDR 9.28 trillion in 2020 to IDR 1.67 trillion in 2022.

Research on earnings management has important relevance because there are still many earnings management practices carried out by companies and cases continue to occur. Earnings management practices can also be detrimental to company stakeholders. In addition, with economic developments that make market competition increasingly fierce, companies tend to make every effort to win the competition by presenting financial reports that reflect positive results (Setyawan et al., 2021). Conducting research on earnings management is highly intriguing, as despite the extensive discussions on this subject, there is no definitive consensus on the outcomes. There is still debate and controversy regarding earnings management practices, the factors that influence them, and their impact on companies and stakeholders.

Earning management is an intervention action practiced by management in preparing company financial reports directed to external parties for the purpose of obtaining a certain level of profit for the benefit of individuals or the company itself (Wicaksono, 2020). Earnings management is based on the principle of agency theory which states that every individual has a tendency to maximize their utility. Agency theory has a concept involving the relationship between principal and agent. Agents (managers) may have incentives to maximize their personal profits to avoid risks that could negatively impact their reputation or compensation. Managerial compensation is considered the output of a market-based system that ensures that managers are provided with adequate incentives to maximize value for shareholders (Hernawati & Ghozali, 2018). As a result, they may take steps that conflict with the company's long-term interests.

There are several factors that influence earnings management practices, such as leverage. Leverage pertains to the utilization of debt by a company to conduct its operational activities (Asyati & Farida, 2020). The higher a company's debt burden, the more likely it is that the company will be unable to meet its obligations and the risk of default increases. Therefore, company management may tend to avoid actions that could worsen their financial condition. Companies can use earnings management as a strategy to play with company profits, a policy that can increase company profits and revenues (Cahyani & Hendra, 2020). Research on the impact of leverage on earnings management conducted by Cahyani & Hendra (2020), Jaya (2020), and Felicia & Chrisnanti (2022) concluded that the leverage variable has a positive impact on earnings management. However, different results were obtained from research conducted by Hanisa & Rahmi (2021), which stated that leverage has no impact on earnings management.

Another element that may initiate the implementation of earnings management practices is tax planning. Tax planning is characterized as a tactic employed by managers to reduce tax costs, ensuring it complies with tax regulations (Saijan, 2020). When a company carries out tax planning, this will result in a review of the profits it produces because profits are the basis for tax imposition (Cahyani & Hendra, 2020). Studies on the influence of tax planning on earnings management conducted by Cahyani & Hendra (2020), Saijan (2020), and Christian & Addy Sumantri (2022) resulted in the conclusion that tax planning has an impact on earnings management. However, different findings were found in the research of Achyani & Lestari (2019) and Setyawan et al. (2021), which states that tax planning does not have a significant impact on earnings management practices.

The oddity of the investigate lies within the expansion of autonomous factors that can impact earnings management. The variable is sweet corporate administration, utilizing pointers of administrative possession, organization possession and review committee. According to Fionita & Fitra (2021), the implementation of good corporate governance can help stakeholders, such as shareholders, to have confidence and believe that the financial reports presented by the company do not contain any indications of fraud. The implementation of good corporate governance mechanisms in accordance with company standards and procedures also aims to reduce the likelihood of earnings management and hopes to encourage efficient, professional, and transparent corporate management (H & Nugroho, 2020). One way to monitor management performance in achieving the company's target or vision is Good Corporate Governance which has the principles of transparency, accountability, responsibility, fairness, independence (Wicaksono, 2020).

The objective of this study is to perform an empirical analysis on the influence of leverage, tax planning, and good corporate governance on earnings management within state-owned companies listed on the IDX during the period of 2018 - 2022. Through comprehensive and in-depth research, we can reveal more about earnings management practices, including the motivation behind it, the factors that influence it, and the positive and negative consequences that may arise. This research is able to provide new insights, better understanding, and relevant policy recommendations in managing earnings management practices.

LITERATURE REVIEW

Agency Theory

Issues related to earnings management and corporate governance are based on the principles of agency theory. A detailed theoretical exploration of agency theory was first outlined by Jensen and Meckling (1976). They describe the managers of a company as "agents" and shareholders as "principals" who are involved in an agency relationship because of a contract. Agency theory is a concept that describes the asymmetric relationship between the principal (share owner) and the agent (manager), which often gives rise to agency conflicts. Agency conflict occurs when managers are entrusted with safeguarding the well-being and interests of shareholders, yet they also harbor a personal interest in enhancing their individual welfare (Wicaksono, 2020). To overcome agency conflicts, a Good Corporate Governance scheme is required to spur the accomplishment of company supportability. Enforcing corporate governance based on agency theory can manage the interaction between shareholders and managers. (Cahyani & Hendra, 2020).

Hypothesis Development

The Effect of Leverage on Earnings Management

The leverage ratio is useful as a metric in seeing how much a company relies on funding through debt (Tanara et al., 2023). Companies with extreme levels of debt, or what is often called extreme leverage, are in a situation where the high level of debt reaches a level that is difficult to overcome or get rid of. This can cause a heavy debt burden and increase the risk of bankruptcy (default) (Mariani & Fajar, 2021). Companies with extreme levels of debt typically have high interest payments and lack flexibility in managing their finances. A substantial leverage ratio suggests that the company may face difficulties in meeting its financial obligations (Febria, 2020). A high leverage ratio can also be an influence for management in implementing changes to the content of financial reports caused by the high amount of debt used for the company's operational needs. The consequence that the company receives from this debt is the obligation to pay installments over a certain period of time along with interest. To calculate leverage using the DER ratio (Debt Equity Ratio).

From an agency theory perspective, there is a positive correlation between leverage and earnings management practices. A high level of leverage in a company signifies elevated reliance on debt financing. This can heighten the likelihood of engaging in earnings management practices, as managers may be motivated to manipulate financial reports to meet debt obligations or mitigate the risk of default (Setijaningsih & Merisa, 2022). Apart from that, companies with high leverage ratios are usually less attractive to investors as a place to invest, this puts pressure on managers and ultimately manipulates profits in order to get funds from investors (Shoaib & Siddiqui, 2022). The use of earnings management to manipulate leverage ratios can be seen as opportunistic behavior of managers in line with agency theory.

Research conducted by Cahyani & Hendra (2020), Sundari & Hariyanto (2021), Felicia & Chrisnanti (2022), Jaya (2020), and Wardoyo et al. (2022) shows the finding that leverage has a positive impact on earnings management. This indicates that the company must pay attention and estimate with certainty whether it will be able to pay off if the company has large debts to support its operational activities. In this context, earnings management is an exertion to optimize the company s money related reports with the point of impacting stakeholders discernments of the company s execution and supportability.

H1: Leverage has a positive effect on earnings management

The Influence of Tax Planning on Earnings Management

Tax planning is the first step before a company pays taxes. Managers can engage in tax planning as a strategy to minimize the company's tax obligation. According to Cahyani & Hendra (2020), tax planning is significant due to the divergent interests between companies, which typically aim to minimize tax payments to avoid allocating substantial corporate profits for taxes and the government which relies on income from taxes as a source of funds to cover state expenditure. The greater the company's profits, the higher the amount of tax it needs to pay. Therefore, companies try to minimize expenditure on taxes by carrying out earnings management (Achyani & Lestari, 2019).

According to the agency theory perspective, there is a positive correlation between tax planning and earnings management practices. According to Suheri et al. (2020), managers have the capability to utilize tax planning as a means to enhance financial reports and impact the level of tax responsibilities the company needs to fulfill. In this scenario, company managers possess the authority to modify accounting information within financial reports and manipulate the company's earnings to lessen tax liabilities and achieve specific profit targets. The use of tax planning for earnings management can lead to a reduction in tax payments, this can be seen as a way for managers to increase company wealth by ignoring the interests of shareholders (Baraja et al., 2019).

Research conducted by Baraja et al. (2019), Suheri et al. (2020), Saijan (2020), and Erawati & Lestari (2019) conclude that tax planning influences earnings management. In this context, tax planning is used by company managers to influence the amount of tax that must

be completed by the company, so that it can influence the amount of reported profits.
H2: Tax planning has a positive effect on earnings management.

The Influence of Managerial Ownership on Earnings Management

Managerial ownership includes ownership of a number of shares both personally by management and subsidiaries and their affiliates (Kusumawardana & Haryanto, 2019). Share ownership by management has a significant impact on managers' actions and decisions, and can align the interests of share owners with the interests of managers (Wicaksono, 2020). This can influence how managers carry out their duties. The higher the extent of share possession by directors in a company, administration tends to pay more prominent consideration to the interface of shareholders, counting itself.

According to the agency theory perspective, there is an opposing correlation between managerial ownership and earnings management practices. Managers who own company shares may have a greater interest in the long-term performance of the company, as the value of their shares is directly linked to the health of the company. High managerial ownership can harmonize interests between managers and shareholders, as managers are more focused on long-term performance rather than just meeting quarterly profit targets, thus reducing the risk of earnings management practices (Kazemian & Sanusi, 2015). Managerial ownership of shares can motivate managers to enhance openness and transparency in financial reporting, as it can strengthen the trust of shareholders.

Research conducted by Arthawan & Wirasedana (2018), Asyati & Farida (2020), and Tatar & Sujana (2021) explains that managerial ownership has a negative influence on earnings management. This indicates that managerial ownership can improve internal control because managers have a direct interest in company performance. This can reduce the tendency to manipulate profits because managers will focus more on the long-term success of the company.
H3: Managerial ownership has a negative effect on earnings management.

The Influence of Institutional Ownership on Earnings Management

Institutional ownership refers to a situation where certain institutions have shares in a company, whether government, private or foreign institutions (Asyati & Farida, 2020). Institutional investors will generally show a cautious attitude and carry out more in-depth analysis when utilizing financial reports (Wicaksono, 2020). Earnings management actions can be minimized if the principal has greater control in supervising the activities carried out by managers (Amalia & Didik, 2017). The principal will have more rights in monitoring or supervising the manager if he has significant share ownership.

According to agency theory, there exists an adverse correlation between institutional ownership and the practice of earnings management. Organization speculators play a observing part in corporate administration by relieving profit administration to diminish organization costs since organization financial specialists have long term interface and are more intensive in analyzing company budgetary articulations. Agency theory shows that institutional ownership can play a role in monitoring that reduces earnings management practices in an effort to reduce agency costs.

Research conducted by Wicaksono (2020) and Asyati & Farida (2020) explains that institutional ownership has a negative influence on earnings management practices. In this case, the institution as an outside party provides strict supervision. Hence, it is anticipated that a significant percentage of institutional ownership will diminish the incentive for managers to

adopt earnings management tactics that could adversely affect investors.
H4: Institutional ownership has a negative effect on earnings management.

The Influence of the Audit Committee on Earnings Management

According to Krisnando & Damayanti (2021), the audit committee is a group established by the Board of Commissioners, tasked with aiding the functions and duties of the Board of Commissioners. The existence of a good audit committee will carry out effective supervision of management in preparing financial reports. The audit committee has an important impact on financial reports, namely reducing the risk of inaccurate accounting measurements and disclosures (Krisnando & Damayanti, 2021).

Based on the agency theory perspective, There exists an inverse relationship between the audit committee and earnings management. A significant work in company administration is carried out by the audit committee which is dependable for checking the quality of budgetary detailing and decreasing dangers related to profit administration hones. Audit committee characteristics such as freedom, measure, movement, and budgetary mastery can impact earnings management.

Research conducted by Khairunnisa et al. (2020) and Kaur et al. (2022) found that audit committees have an unfavorable influence on earnings management practices. Through these findings, it can be inferred that the audit committee has a role in overseeing managerial activities to prevent them from engaging in opportunistic actions, and is also in line with the interests of investors. Thus, the presence of an effective audit committee can contribute to monitoring the company's financial reports and reducing the possibility of earnings management occurring.
H5: The audit committee has a negative effect on earnings management.

Research Framework

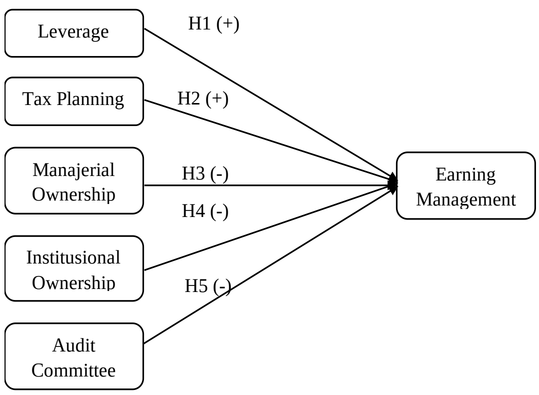

Figure 1. Research Framework
Source: Author's Process, 2023

METHOD

Description of Research Sample

The study used quantitative methods including hypothesis testing to analyze numerical data and performing statistical analysis to examine relationships between variables. Secondary data from annual reports of public companies listed on the Indonesia Stock Exchange and the official website of IDX (www.idx.co.id) were used. Data collection used document research and library research methods. The analysis is based on data from the company's annual financial reports from 2018 to 2022. Two analysis methods, descriptive analysis and multiple linear regression, are used, including model testing (coefficient of determination and F-test) and hypothesis testing (regression coefficient and F-test). Test). Two-step t-test.

Table 1. Research Sample Criteria

Sample Selection Criteria	Number
State-owned companies in Indonesia	41
State-owned companies that are not listed on the IDX during the 2018-2022 period	(17)
State-owned companies that publish annual reports during the 2018-2022 period to calculate earnings management variables	24
NUMBER OF SAMPLES (24 Companies x 5 Years)	**120**

Source: Author's Process, 2023

Operational Definition of Variables

The variable that is the focus of this research is earnings management (Y), which is measured by the discretionary accrual proxy. In calculating discretionary accruals, the method used is the Modified Jones Model (Erawati & Siang, 2021). The company positively indicates that earnings management actions are carried out by increasing company profits. Meanwhile, companies with negative indicators indicate that earnings management actions are being taken by reducing company profits. Apart from that, the earnings management variable uses time series data for 2018-2022. The independent variables in this research are Leverage (X1), Tax Planning (X2), Managerial Ownership (X3), Institutional Ownership (X4), and Audit Committee (X5).

Table 2. Operational Variables

Variable	Measurement	Source
Earning Management (Y)	$DA_{it} = \frac{TA_{it}}{A_{it-1}} - NDA_{it}$	(Erawati & Siang, 2021)
Leverage (X1)	$DER = \frac{\text{total utang}}{total\ ekuitas}\ x\ 100\%$	(Erawati & Siang, 2021)
Tax Planning (X2)	$EBIT = \frac{\text{net income}}{pre\ tax\ income}\ x\ 100\%$	(Erawati & Siang, 2021)
Managerial Ownership (X3)	$\frac{\text{Number of Managerial Share}}{Outstanding\ Share\ Capital}$	(Wicaksono, 2020)
Institutional Ownership (X4)	$\frac{\text{Number of Institutional Shares}}{Outstanding\ Share\ Capital}$	(Wicaksono, 2020)
Audit Committee (X5)	Number of Audit Committee Members	(Pramitha, 2021)

Source: Author's Process, 2023

ANALYSIS AND DISCUSSION

Descriptive Statistical Test

Table 3. Descriptive Statistical Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
Leverage (X1)	74	-3,84	8,12	2,4899	2,29349
Tax Planning (X2)	74	,26	1,09	,7717	,17666
Managerial Ownership (X3)	74	,0000	,00038	,000028	,00006763
Institutional Ownership (X4)	74	0,0000	,94472	,3283748	,31605015
Audit Committee (X5)	74	3	8	4,26	1,272
Earnings Management (Y)	74	-1,40726188	,962496589	-,160500986	,4669336217

Source: Data processing with SPSS 24

From the table above, the results of the analysis using descriptive statistics can be described as follows:

1. The leverage variable (X1) has a homogeneous power distribution, characterized by an average value (2.4899) which is greater than the standard deviation (2.29349). The range between the minimum value (-3.84) and the maximum value of (8.12) shows moderate variation.
2. Tax planning variable (X2) has a homogeneous power distribution, characterized by an average value (0.7717) which is greater than the standard deviation (0.17666). The range between the minimum value (0.26) and the maximum value (1.09) shows limited variation.
3. Managerial ownership variable (X3) has a data distribution that is less than optimal, because the average value (0.000028) is smaller than the standard deviation (0.00006763). Data variability in this variable is relatively low with a value range between 0.0000 and 0.00038.
4. Institutional ownership variable (X4) shows a homogeneous or good distribution of data, with an average value (0.3283748) which is greater than the standard deviation (0.31605015). The range of values between minimum (0.0000) and maximum (0.94472) indicates moderate variation.
5. Audit committee variable (X5) has a homogeneous or good data distribution, characterized by an average value (4.26) which is greater than the standard deviation (1.272). The range of values between minimum (3) and maximum (8) indicates moderate variation.
6. Earning management Variable (Y) has a less than optimal data distribution, because the average value (0.160500986) is smaller than the standard deviation (0.4669336217). Data variability in this variable is relatively high with a value range between -1.40726188 and 0.962496589.

Normality test

Data normality can be measured using the Kolmogorov Smirnov test by looking at the significance results of the Unstandardized Residual variable, whether it is above or below 0.05. In line research, researchers applied the Montel Carlo exact test for the Kolmogorov-Smirnov test with a confidence level of 99%. Based on the test results, the significance value of the data is 0.115 (< 0.05), so it can be concluded that the data used in the research has a normal distribution.

Table 4. Data Normality Testing Results

One-Sample Kolmogorov-Smirnov Test

	Unstandardized Residual		
N	74		
Normal Parameter, b	Mean		,000000
	Std. Deviation		,42969015
Most Extreme Differences	Absolute		,137
	Positive		,090
	Negative		-,137
Test Statistic			,137
Asymp. Sig. (2-tailed)			,001
Monte Carlo Sig. (2-tailed)	Sig.		,115
	99% Confidence Interval	Lower Bound	,107
		Upper Bound	,123

Source: Data processing with SPSS 24

Multicollinearity Test

The test for multicollinearity assesses if there is a correlation among independent variables in a regression model. To identify signs of multicollinearity, one can assess the tolerance factor and VIF value. The outcomes from the multicollinearity test table, presented below, suggest that the variables Leverage, Tax Planning, Managerial Ownership, Institutional Ownership, and Audit Committee exhibit a tolerance value exceeding 0.10 and a VIF value below 10. Hence, it can be concluded that there is no multicollinearity problem in the regression model.

Table 5. Multicollinearity Test Results

		Collinearity Statistics	
Model		Tolerance	VIF
1	Leverage (X1)	,711	1,407
	Tax Planning (X2)	,917	1,090
	Manajerial Ownership (X3)	,946	1,057
	Institusional Ownership (X4)	,678	1,474
	Audit Committee (X5)	,895	1,118

Source: Data processing with SPSS 24

Autocorrelation Test

Autocorrelation testing assesses the correlation between sequential values of a variable in a time series. It helps identify patterns or relationships between data measurements at a specific time and those at previous or subsequent times in a regression model. The test is conducted by calculating the Durbin Watson (DW) value, and its assessment involves checking whether the DW value falls within the range between Du and 4-Du values.

Table 6. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,391	,153	,091	,4452073991	1,986

Source: Data processing with SPSS 24

According to the autocorrelation test presented in the table, a Durbin Watson (DW) value of 1.986 was obtained. With a total sample size of 74 and 5 independent variables in this research, the Durbin-Watson (Du) statistical value from the table is 1.7694, and the 4-Du value is 2.2306. The analysis results lead to the conclusion that there is no autocorrelation phenomenon in the regression model, as the value of Du<DW<4-Du (1.7694<1.986<2.2306).

Heteroscedasticity Test

The heteroscedasticity test detects variations or unevenness of variance in a regression model. Conducted using the White test, it involves regressing residual values against independent variables, squared independent variables, and the multiplication of independent variables. The test is then performed by comparing the χ2 table and calculated χ2; if χ2 table > χ2 calculated, heteroscedasticity is absent, while if calculated χ2 > χ2 table, heteroscedasticity is present.

Table 7. Heteroscedasticity Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,783	,613	,467	,22647

Source: Data processing with SPSS 24

From the table above, the R square value is 0.613. The calculation is carried out by calculating the χ2 value (n x R square), where n is the number of research samples (74 data), and R square is 0.613. So the calculated χ2 result is 45.362. Next, the χ2 table is calculated using the formula (df = n-1). The result of the $\chi 2$ table is 93.945340. Because the value of $\chi 2$ table > $\chi 2$ calculated, it can be stated that in the regression model there are no symptoms of heteroscedasticity.

Multiple Linear Regression Analysis Test

Table 8. Multiple Linear Regression Analysis Test Results

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-,489	,359		-1,361	,178
	Leverage (X1)	,004	,027	,020	,150	,881
	Tax Planning (X2)	,394	,308	,149	1,281	,205
	Managerial Ownership (X3)	-473,296	792,306	-,069	-,597	,552
	Institutional Ownership (X4)	-,417	,204	-,278	-2,049	,044
	Audit Committee (X5)	,039	,043	,105	,892	,375

Source: Data processing with SPSS 24

Using the outcomes from the prior table's multiple linear regression analysis, we can derive a multiple linear regression model as follows:

Y = -0.489 + 0.004 X1 + 0.394 X2 + -473,296 X3 + -0,417 X4 + 0,039 X5 + e

Determination Coefficient Test

Table 9. Determination Coefficient Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,391	,153	,091	,4452073991

Source: Data processing with SPSS 24

Derived from the presented table, the Adjusted R Square value is 0.091, equivalent to 9.1%. This indicates that the variables of leverage, tax planning, managerial ownership, institutional ownership, and audit committee collectively contribute to a 9.1% impact on the earnings management variable, while the remaining 80.9% is influenced by other variables not incorporated in the research model.

Simultaneous Significance Test (F Test)

Table 10. F-Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2,438	5	,488	2,460	,042
	Residual	13,478	68	,198		
	Total	15,916	73			

Source: Data processing with SPSS 24

Based on the table over, it appears that the comes about of the F test in this think about have a importance level of 0.042, this result is littler than 0.05. Subsequently, it can be concluded that all independent variabels at the same time influence the dependent variable.

T Test (Partial)

The T-test is employed to determine if there is a correlation between the independent variable and the dependent variable. According to the results, the independent variable that impacts earnings management is institutional ownership, with a significance level of 0.044 (< 0.05). On the other hand, the variables of leverage, tax planning, managerial ownership, and audit committee do not influence earnings management as their significance levels are above 0.05.

Table 11. T-Test Results

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-,489	,359		-1,361	,178
	Leverage (X1)	,004	,027	,020	,150	,881
	Tax Planning (X2)	,394	,308	,149	1,281	,205
	Managerial Ownership (X3)	-473,296	792,306	-,069	-,597	,552
	Institutional Ownership (X4)	-,417	,204	-,278	-2,049	,044
	Audit Committee (X5)	,039	,043	,105	,892	,375

Source: Data processing with SPSS 24

Discussion of Research Results

The Effect of Leverage on Earnings Management

Hypothesis 1 states that leverage has a positive effect on earnings management. The results of the analysis show that the hypothesis is rejected at the significance level of 0.881. This shows that low or high company leverage ratios have no effect on earnings management. Company decisions regarding the use of leverage can be influenced by the choices of creditors and external investors. External parties have an interest in ensuring that the company's capital structure remains healthy and sustainable. If a company implements suspicious earnings management practices, this can cause a lack of trust from external parties. A high leverage ratio makes the company supervised by a third party, thereby reducing management's freedom of movement in carrying out earnings management practices. Monitoring actions carried out by third parties, such as creditors and regulators, make management more careful in managing their finances because there are more serious consequences in a financial and legal context if they carry out earnings management. The comes about of this research are in line with inquire about conducted by Fionita & Fitra (2021) and Asyati & Farida (2020) which stated that leverage has no effect on earnings management. However, different results are found in research conducted by Erawati & Siang (2021), Purnama & Taufiq (2021), and Selviani & Widjaja (2019) which states that leverage has a positive effect on earnings management.

The Influence of Tax Planning on Earning Management

Hypothesis 2 states that tax planning has a positive effect on earnings management. The analysis results led to the rejection of the hypothesis with a significance value of 0.205. This indicates that the extent to which a company engages in tax planning, whether low or high, does not influence earnings management. Tax planning and earnings management are two different concepts. Tax planning focuses more on the company's strategy to optimize its tax obligations legally and efficiently, while earnings management involves company actions to influence the contents of financial reports in order to create a good image or perception of the company's performance. Accounting principles require companies to record transactions objectively and follow applicable accounting standards. Although there is room for interpretation, there are ethical and legal limitations that govern the preparation of financial reports.

The policy in carrying out valid tax planning must comply with applicable tax regulations and laws. If earnings management involves actions that are not in accordance with tax regulations, this could create legal risks for the company concerned. One indication of earnings management is that managers seem to be in a rush to prepare financial reports, so this causes the company to present poor financial reports. As a result, the company is seen as bad in the eyes of stakeholders, such as investors, the government and the general public. On the other hand, transparent and legal tax planning actions are actually better for the company's reputation because they involve an objective assessment of the company's structure and operations to optimize tax obligations. The comes about of this research are in line with inquire about conducted by Khairunnisa et al. (2020), Setyawan et al. (2021), and Achyani & Lestari (2019) who state that tax planning has a negative effect on earnings management, however different findings are found in research conducted by Erawati & Lestari (2019), Suheri et al. (2020), and Cahyani & Hendra (2020) who state that tax planning has a positive effect on earnings management.

The Influence of Managerial Ownership on Earnings Management

Hypothesis 3 states that managerial ownership has a negative effect on earnings management. Based on the results of the analysis, the hypothesis is rejected with a significant value of 0.552, which means that large or small amounts of share ownership by managers cannot minimize the opportunity for earnings management to occur. Pramitha (2021) stated that share ownership by managers in the corporate governance structure tends to be weak and less effective. This is because the number of shares owned by managers in the company is relatively smaller compared to share ownership by external investors. Even though managers have shares in the company, it is possible that they also have investments or shares in other companies. Therefore, managers may have broader interests than just the welfare of the firm, and this may reduce the effectiveness of managerial ownership as an incentive. If managers' involvement in share ownership is limited, their likelihood of engaging in earnings management practices may be lower because their relationship with shareholders is not as strong. Limitations in share ownership can hinder managers' motivation to take steps that may be detrimental to shareholders.

The discoveries of this inquire about are reliable with inquire about conducted by Pramitha (2021), Febria (2020), Paniran & Baharudin (2021), and Kusumawardana & Haryanto (2019) which stated that managerial ownership has no effect on earnings management, however, this is contrary to research. conducted by Arthawan & Wirasedana (2018) and Christian & Addy Sumantri (2022) who stated that managerial ownership has an influence on earnings management.

The Influence of Institutional Ownership on Earnings Management

Hypothesis 4 states that institutional ownership has a negative effect on earnings management. Based on the results of the analysis, the hypothesis is accepted with a significance value of 0.044, which means that the greater the proportion of institutional shares, the level of supervision carried out by them also increases, so the opportunity for managers to carry out earnings management also becomes smaller. Institutional shareholders usually have greater interests and can have quite significant influence in the company's decision-making process and can monitor management more effectively.

Large institutional share ownership can also motivate managers to show and report good company performance. Institutions can make demands for transparency in financial reporting because they have policies and standards related to reporting and business ethics that can reduce managers' incentives to carry out earnings management. This research result is consistent with the study of Erawati & Lestari (2019), Asyati & Farida (2020), and Cahyani & Hendra (2020) which stated that institutional ownership has a negative effect on earnings management, however different results are found in the research conducted conducted by Amalia & Didik (2017) and Kusumawardana & Haryanto (2019) who stated that institutional ownership has no effect on earnings management.

The Influence of the Audit Committee on Earnings Management

Hypothesis 5 states that the audit committee has a negative effect on earnings management. Based on the comes about of the analysis, the hypothesis is rejected with a significance value of 0.375, which suggests that if the audit committee encompasses a huge or little number of individuals it cannot minimize earnings management hones. This appears that the checking activities carried out by the audit committee have not been demonstrated compelling in minimizing earnings management hones. In the company structure, the audit committee holds a crucial function in verifying the precision of financial statements and ensuring adherence to relevant accounting standards. Earnings management practices often involve complex, structured strategies, and can be carried out in various ways, such as changing accounting policies, delaying expenses, or allocating income. This causes the audit committee, which should have a role in ensuring the integrity of financial reports, to have difficulty in identifying and preventing earnings management practices. The audit committee also relies on information provided by company management. If management intentionally conceals information related to earnings management, the audit committee may have difficulty detecting earnings management practices within the company.

The presence of an ineffective audit committee is caused by the initial aim of establishing an audit committee in a company only to fulfill regulations regarding the obligation to form an audit committee. Therefore, the audit committee’s role has not reached its full potential and has not succeeded in having a significant impact on earnings management practices in the company. Apart from that, audit committee members did not succeed in carrying out their duties effectively, so that the supervisory function that the audit committee should have did not run optimally. The findings of this research are consistent with research conducted by Selviani & Widjaja (2019) and Krisnando & Damayanti (2021) which stated that audit committees have no influence on earnings management, however different results are found in research conducted by Amalia & Didik (2017), Putri (2021), and Kaur et al. (2022) which states that the audit committee has an influence on earnings management.

CONCLUSION

From the outcomes of the research tests, it can be inferred that the variables of leverage, tax planning, and effective corporate governance, evaluated through indicators such as managerial ownership, institutional ownership, and audit committee, collectively impact earnings management. The findings from the hypothesis testing indicate that leverage does not have an effect on earnings management. This is often attributed to the fact that companies with high leverage are usually more closely monitored by external parties, limiting management's opportunities to manipulate profits. The variable of tax planning does not influence earnings management. This can be elucidated by the conceptual distinction between tax planning and earnings management, as manipulating profits in contravention of tax regulations can expose the company to legal risks.

Managerial ownership does not impact earnings management. This finding shows that the level of managerial ownership has not been able to control earnings management because managerial ownership is usually smaller than institutional, and managers can also own shares in other companies. Institutional ownership has a negative effect on earnings management. This indicates that significant institutional ownership can minimize earnings management practices because institutions participate in monitoring company performance. The audit committee variable does not impact earnings management. This is because the existence of an audit committee in a company might be confined to regulatory compliance, making it ineffective in overseeing earnings management practices.

LIMITATIONS AND RECOMMENDATION

The limitations of this study include a small sample size, limiting the available data, and the presence of many non-significant variables. The researcher utilized the outlier method to enhance data normality, resulting in reduced data for the study. The research focuses exclusively on state-owned enterprises, implying that the findings may not be fully representative of all companies listed on the Indonesian Stock Exchange. Additionally, the combined effect of the independent variables on earnings management is only 9.1%, indicating the presence of various other factors influencing earnings management. Further research is suggested by adding other independent variables that may influence earnings management, such as financial distress (Khairunnisa et al., 2020). This can produce more comprehensive research findings. Future research can also add to the sample of companies, not only focusing on state-owned companies, so as to increase the level of generalization of the research results.

Research on earnings management has important implications for several parties. 1) For companies, this research can provide knowledge about various factors that can influence earnings management in companies. A better understanding of the influence of leverage, tax planning, and other factors can help companies design more effective financial policies. 2) For investors, this research can be used as a source of additional information to assess investment risk. If earnings management practices can be identified, investors can consider their impact on the validity of the financial statements and the financial health of the company. 3) For future researchers, the findings from this research can be a basis for further research related to earnings management. In-depth research into various other factors that might trigger earnings management is needed to broaden understanding and gain more comprehensive insight.

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